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THE ECONOMIC AND SOCIAL ASPECT OF TRUSTS.

"WHAT shall we do with trusts?" has of late become an absorbing theme of public discussion. Indeed, the public mind has begun to assume a state of apprehension, almost amounting to alarm, regarding the evil economic and social tendencies of these organizations. Nor is this apprehension limited to professional agitators and chronic alarmists. It is shared in by all classes. Our foremost journalists, essayists, orators and publicists unite in warning us against the evil consequences to be expected from the organization of trusts, syndicates and the like. In fact, the social atmosphere seems to be surcharged with an indefinite, but almost inexpressible fear of trusts.

In the present state of the public mind upon the subject, to raise a hand against trusts is, *a priori*, a righteous act. It practically constitutes a standing invitation to politicians, — who, though unfamiliar with economic principles, are very sensitive to public favors, — to enact all sorts of arbitrary laws restricting industrial enterprise, on the principle that to injure a trust is to perform a public service. To such an extent is this true that, in one form or another, the proposition to limit these organizations by law has been discussed in both national and state legislatures. Commissions of investigation have been appointed and in some instances restrictive legislation has already been adopted. In obedience to this feeling, one of the great political parties has actually made opposition to trusts a national issue. The interests of industrial and social freedom demand that a

truce be called; at least, until we ascertain whether we are really engaging a public enemy or simply pursuing an industrial phantom. In order to do this, it is necessary carefully to consider what the economic and social aspects of trusts are.

At the outset, it is important clearly to distinguish between the economic character of the organizations and the personal character of the individuals conducting them, because the evils arising from the one require an entirely different kind of treatment from that applied to those caused by the other. If a grocer gives light weight, if he puts sand in his sugar, or peas in his coffee, or if a merchant sells mixed goods for all wool, — that would hardly be a justification for suppressing grocery stores and dry goods houses. In considering the economic and social aspect of trusts, we are not concerned with the personal character of Jay Gould, or the president of the Standard Oil trust, or any manager of great railroad syndicates, but only with the necessary economic and social tendency of the enterprises over which they preside.

The first step in the inquiry is to ascertain what constitutes the distinguishing economic characteristic of trusts. In what, for instance, do they differ, as industrial institutions, from corporations, individual capitalists, or even from hand workers? The more closely we examine the subject the more clearly we shall see that they are all fundamentally the same; that the difference is not one of principle, but solely of size and complexity of industrial organization. The hand laborer organizes industry on a very simple basis, and on a small scale. His own personal energy and a few primitive tools are the only means he is capable of employing. The individual capitalist or *entrepreneur* differs from the hand laborer in that he organizes industry on a more complex basis, and on a larger scale. Instead of being confined to his own personal energy and such tools as he himself is capable of using, he employs a number of individuals together, divides and specializes their labor, and uses it in conjunction with steam-driven machinery. The corporation differs from the individual capitalist in that it consists of the association of a number of capitalists, who, by a greater

concentration of capital, are enabled to organize industry on a still more complex and extensive basis. And similarly, trusts, which are the latest form of industrial phenomena, differ from the corporation in that, instead of being composed of individual capitalists, they comprise corporations, which, through a still greater concentration of capital, make a more minute differentiation and a higher integration of industrial energy possible. The economic difference between the trust and the corporation, and that between the corporation and the individual capitalist, is not that one is an aggregation of corporations, another of individuals, and the third a single individual; but, like the difference between the hand laborer and the individual capitalist, it consists entirely in the fact that one represents a greater aggregation and concentration of capital than the other.

Manifestly, then, the distinguishing economic characteristic of trusts consists of the maximum concentration of capital in productive industry. Therefore the real question involved in considering the economic and social aspects of trusts is: Does the concentration of capital in productive enterprise, whether under trusts, syndicates, or otherwise, necessarily involve economic or social disadvantage to the community? The popular answer to this question is an emphatic, yes! Among the numerous charges upon which trusts and kindred organizations are indicted as public evils are the following:

(1) That they tend to build up monopolies and drive small capitalists out of business;

(2) That they destroy competition, the great minimizer of profits and equalizer of prices;

(3) That they amass fortunes at the expense of the community by increasing the price of commodities;

(4) That they tend to build up an oligarchy which controls legislation in its own interest against that of the community, thereby undermining personal and political freedom, and endangering the existence of democratic institutions.

If these are the necessary results of trusts, it is clearly the duty of the public to check their development. Before taking any steps in that direction, however, it is highly important to

ascertain whether these charges are true, and if true, whether they are the inevitable result of such organizations.

First: Is it true that the concentration of capital tends to build up monopolies? Much here depends upon what is understood by the term monopoly. If by monopoly is meant merely the exclusive power to produce a commodity, this exclusive power may be either an evil or a great benefit, depending entirely upon the way it is obtained. If it is procured through the arbitrary exclusion of competitors, it will surely be an evil; but if derived from the capacity to make the article more cheaply than others, through the use of large capital and superior methods, then it is a positive advantage to the community. It is true that every such advantage is gained by underselling competitors and driving small capitalists from the market; but that, too, is an economic advantage. To understand this it is necessary to remember that there are two kinds of wealth, consumable wealth, and productive wealth or capital. The former is wholly devoted to the direct gratification of personal and social wants, while the latter serves no other purpose than that of aiding in the production of more wealth. The sole function of capital is that of a tool. As tools are of no advantage either to their owners or to the public except as they are successfully used in producing wealth, it follows that the only economic and social interest the community can possibly have in either the diffusion or concentration of capital (tools) is that it shall be so employed as to produce consumable wealth most cheaply.

The income of the capitalist class consists of profits, which the community is not interested either in sustaining or increasing. On the contrary, it is always interested in minimizing the proportion of the product which goes to the capitalist as profits, and maximizing that which goes to the community in low prices and high wages. Clearly, therefore, society can have no interest in sustaining the small capitalist unless he can produce wealth as cheaply as the large one; any more than a manufacturer has in sustaining a lazy, incompetent workman in preference to an efficient one. The public could better afford to pension small

manufacturers as paupers than to pay the high prices resulting inevitably from the inferior methods their limited capital can employ. Nor is this necessarily a disadvantage to the discharged capitalist, because the large, and hence successful, capitalist can give him employment as a manager or overseer at a higher salary than he could obtain as an isolated small manufacturer; and this is what has occurred wherever industrial integration has taken place on any considerable scale. Strictly speaking, the concentration of capital does not drive small capitalists out of business, but simply integrates them into a larger and more complex system of production, in which they are enabled to produce wealth more cheaply for the community and obtain a larger income for themselves. Consequently, the economic absorption of small capitalists by large ones, instead of being a public evil, is a public advantage, because it can only take place when it serves the community better.

Second: The next charge is that the concentration of capital tends to destroy competition. This is a serious mistake. When the products of the small factory undersold those of the hand-loom and drove the hand-loom weaver out of the market, it did not destroy competition. It is true, competition ceased between the factory and the hand-loom weaver, but it immediately commenced between small manufacturers. Hence, instead of destroying competition, it only changed the plane upon which the competition took place. Again, when competition began between small manufacturers, it was much fiercer than ever it had been between hand-loom weavers. The same was true when small manufacturers began to integrate into corporations. The products of the corporation undersold those of the small manufacturer, and practically drove him from the market; but that did not destroy competition, for, when the small manufacturer ceased to compete with the large corporation, another corporation took his place, and competition was raised to a still higher plane; that is, to a plane between stronger contestants, in which the competition was necessarily more severe. What was true of the hand-loom weaver and small manufacturer, and the small manufacturer and the corporation, is now true of trusts.

By the use of large capital, improved machinery and better facilities the trust can and does undersell the corporation; but that is not destroying competition. It is simply making trusts necessary in all large industries, and thus again raising the plane of competition, from the domain of corporations to that of trusts.[1] The competition between trusts naturally tends to reduce the profits to a closer margin than did the competition between corporations, for the reason that the larger the business transacted, the smaller the percentage of profit necessary to its success. Thus, instead of the concentration of capital tending to destroy competition and encourage large profits, the reverse is true. It tends to raise the plane and increase the intensity of competition, and minimize the margin of profits.

Third: The third complaint is that the concentration of capital tends to increase prices. This is the most important charge of all. Whatever the advantage derived from the concentration of capital in productive industry may be, if it tends to increase the prices of commodities, that would be an evil sufficient to warrant its arrest; and as the whole history of industrial progress has been in the direction of the concentration of capital into larger and larger establishments, if the charge be true, it would prove that the industrial development of modern civilization is on the wrong track, and nothing short of revolution could redeem us from the evil effects thereof.

Fortunately for civilization, all the facts of industrial history point the other way. It is a well-established principle, both in economics and practical business, that capital is most effective in producing consumable wealth where it is most concentrated. The modern factory and railroad systems, which have done so much to cheapen wealth and increase the comfort and convenience of society during the present century, would have been absolutely impossible upon any other principle than that of colossal aggregation of capital.

[1] Witness the organizations of the sugar warehouse men, the tin and copper manufacturers, the millers, the farmers and fruit growers, all of which have been made necessary by the severe competition caused by the large concerns which can do the business at the minimum cost.

That the concentration of capital into large enterprises is an economic and social advantage, tending to increase production, to lower prices, and to raise wages, is demonstrated in the history of every progressive country and every successful manufacturing establishment in the world. In short, the use of large capital, the specialization of labor, and the concentration of productive power are the infallible evidence, not only that wealth is being more economically and abundantly produced, but that the community in general, and the wage-receivers in particular, are obtaining a constantly increasing proportion of the product. Large establishments sustain the same economic relation to small ones that steam and electricity sustain to hand labor. The railroad supplanted the pack-horse and stage coach for no other reason than that it served the community better. When the small farm or factory is driven from the field by the larger one, it is always because the latter does the work better and cheaper than the former. As an illustration of this principle, let us take the progress in the cotton industry in the United States since 1830. In that industry, according to the United States census for 1880,[1] the investment of capital, the number of establishments, amount and price of product, and wages paid in 1830 and 1880 were as follows:

	1830.	1880.
Number of establishments	801	756
Aggregate capital invested	$40,612,984	$208,280,346
Number of lbs. cloth produced	59,514,926	607,264,241
Number of persons employed	62,208	172,544
Number of spindles employed	1,246,703	10,653,435
Amount of capital to establishment . .	$50,702,	$275,503
Ratio of lbs. produced to capital . . .	1.4 to $1.00	2.4 to $1.00
Ratio of capital to persons employed . .	$652.85 to 1	$1207.17 to 1
Ratio of spindles to persons employed .	22 to 1	62 to 1
Ratio of capital to spindles employed . .	$32.58 to 1	$19.55 to 1
Ratio of lbs. produced to persons employed,	950.7 to 1	3519.5 to 1
Ratio of lbs. produced to spindles . . .	47.6 to 1	57.0 to 1
Annual consumption of lbs. of cotton cloth per capita	5.90	13.91

[1] Vol. II, Statistics of Manufactures, pp. 531 to 547.

	1830.	1880.
Price of cotton cloth per yard	17 cts.	7 cts.
Operative's wages per week[1]	$2.55	$5.40

It will thus be seen that in the 756 large establishments in 1880, in which the aggregate capital invested was five times as great as that in the 801 small establishments in 1830, the capital invested per spindle was one-third less, the number of spindles operated by each laborer nearly three times as large, the product per spindle one-fourth greater, the product per dollar invested twice as large, the price of the cotton cloth nearly sixty per cent less, the consumption per capita of the population over one hundred per cent greater, and wages more than double. What is true of this industry, is true of all industries where the concentration of capital has taken place.

It may be urged that the cotton industry has never been under the control of a trust or syndicate, and that the evil effects of concentration do not begin until the trust period is reached. Among the most formidable concentrations of capital which have come under the unfortunate name of trusts or syndicates are those devoted to railroading, telegraphing, and the production of petroleum. There are others of similar proportions, but these are the monster evils most to be feared in this country. And, furthermore, these trusts have been in existence the longest, and the true economic tendency of such organizations will therefore be most clearly indicated in their history. What are the facts in relation to these?

We will take, first, petroleum. Not only is the production of petroleum in the hands of a trust, but it is probably the largest trust in the world. The worst of these evils, therefore, may be expected to be found in the history of the Standard Oil company; and if there are any special advantages in trusts, we may expect to find there the best results also.

There are, now, several economic advantages in connection

[1] These are women's wages. I have taken the wages of women because there were not men enough employed as cotton operatives in 1830 to warrant a fair comparison; but to the extent that they were so employed their wages have risen in a similar ratio to those of women.

with these institutions that are not to be found in individual corporations. When corporations were isolated they were in competition with each other, not only in the selling market, but in the productive process also, and each one who discovered an improvement in the manufacture naturally took special pains to keep it from all competitors. Under trust companies this is reversed. No sooner is an improvement found by any one corporation, than it is, from common interest, applied to all; hence the economy which was previously confined to a single corporation now becomes a part of the process of the whole product in the market, — at least, so far as the trust is concerned. Again, when corporations combine they are enabled to manufacture all their own supplies on the largest possible scale, and are thereby enabled to employ the most improved method of production in every department. This is exactly what has been accomplished by trusts. For example, before the organization of the Standard Oil company in 1872, oil had to be transported from the wells to the market by the railroads in small quantities, in barrels, tanks, *etc.* After the organization of that company, these various methods were superseded by one general pipe line, which takes the oil directly from the well to the market. There are two such lines reaching New York, with a capacity of 25,000 barrels per day. There is also one such line to Philadelphia, one to Baltimore, another to Buffalo, another to Cleveland, and another to Pittsburg, and one is now being laid to Chicago. This was an undertaking absolutely impracticable for any of the smaller corporations. The result is a saving of 66⅔ per cent on the cost of transportation alone. In 1872 it cost $1.50 to transport a barrel of oil to New York; to-day it costs only 50 cents. In 1872, barrels cost $2.35 each; to-day the Standard Oil trust manufactures them for its own use at $1.25 each, a reduction of 47 per cent, or a saving of nearly $4,000,000 a year. In the cost of the manufacture of tin cans, a saving of 50 per cent has been made, the price having been reduced from 30 to 15 cents per can since 1874. As this company uses about 30,000,000 tin cans a year, that makes a saving of over $4,500,000 annually. The same is true of wooden cases, which in 1874 cost 20 cents

each. The company now manufactures them for itself at a cost of 13 cents each, being an annual saving of about $1,250,000.

Who was benefited by all this economy? is the question that naturally arises in this connection. Did it go into the pockets of the Standard Oil company as profits, or did it accrue to the community in the reduced price of oil? That question can best be answered by the facts, as shown in the following table:[1]

Year.	Shipments from wells. Bbl.	Stock of crude oil on hand. Bbl.	Price of crude oil per gallon at wells.	Price per gallon of refined oil for export.
1871	5,667,891	568,858	10.52 cts.	24.24 cts.
1872	5,899,942	1,174,000	9.43	23.75
1873	9,499,775	1,625,157	4.12	18.21
1874	8,821,500	3,705,639	2.81	13.09
1875	8,924,938	2,751,758	2.96	12.99
1876	9,583,949	1,926,735	5.99	19.12
1877	12,496,644	2,857,098	5.68	15.92
1878	13,750,090	4,307,590	2.76	10.87
1879	16,226,586	8,094,496	2.09	8.08
1880	15,839,020	16,606,344	2.24	9.12
1881	19,340,021	25,333,411	2.30	8.05
1882	22,094,209	34,335,174	1.87	7.41
1883	21,967,636	35,715,565	2.52	8.14
1884	24,053,902	36,872,892	1.99	8.28
1885	24,029,424	33,836,939	2.11	7.86
1886	26,332,445	33,395,885	1.69	7.07
1887	26,627,191	28,310,282	1.59	6.75

It will be seen by the above that from 1871, the year before the Standard Oil company was organized, to 1878, the year before the pipe line was laid, the price of refined oil fell 13.37 cents per gallon. From the laying of the pipe line to the organization of the trust in 1881 it fell 2.82 cents per gallon, and from the organization of the trust to 1887 it fell 1.30 cents per gallon. Thus, through the economies introduced into the production

[1] See New York Produce-Exchange Reports, 1873-4, p. 483; 1875-6, p. 445; 1876-7, p. 405; 1882, p. 773. Also New York Chamber of Commerce Reports for 1869-70, p. 45; 1871-2, p. 54; 1875-6, p. 50; 1878-9, p. 98; 1882-3, p. 67; 1886-7, p. 65; 1887-8, p. 73.

and transportation of petroleum since 1871, the price of refined oil has been reduced 17.49 cents per gallon, or 72 per cent, being a saving to the consumers of the 998,953,011 gallons of refined oil last year alone of $174,716,881.

It may be said that this great fall in the price is partly the result of the fall in the price of crude oil. That is true, but much of this fall is also due to the improved facilities applied at the wells by this company. But were it true that this reduction is all attributable to causes over which the Standard Oil trust has no control, which is absurd, that cannot be said of the fall in the price of refined oil in excess of that of the crude. It will be seen from the table quoted above, that since 1871 the price of crude oil has fallen 8.93 cents per gallon, leaving a net fall in the price of refined oil, over and above that of the crude, of 8.56 cents per gallon, or 1.81 cents per gallon more than the total price now paid for it. This reduction in price is due exclusively to the improved methods introduced into the various processes of refining and transporting oil. If the price of refined oil had only fallen in the same ratio as that of crude, it would to-day cost the consumer 15.30 cents per gallon instead of 6.75 cents, the price at which it was sold in 1887. It will thus be seen that, giving the opposition the full benefit of all the doubts, the consumers of refined oil in 1887 had a clear gain, of $85,410,482 as the result of the efforts of the Standard Oil company; and still we are told that trusts tend to advance prices to the consumer.

Another trust company that has been singled out for censure is the one engaged in the manufacture of cotton-seed oil. So strong is the feeling against trusts, that an effort has recently been made to impose a tax upon the product of this company, not to make it reduce, but to force it to increase the price of its product, in order that hog fat manufacturers might have a special advantage. Notwithstanding this opposition, the price of cotton-seed oil has moved along with the economic improvement in its production introduced by the trust. In 1878 the average price of standard summer yellow oil was 47.94 cents per gallon. In 1883, the year before the organization of the trust,

it had only fallen to 47.08 cents per gallon. In 1887, four years after the organization of the trust, it had fallen to 38.83 cents per gallon. In other words, during these four years the price of cotton-seed oil fell more than eight times as much as it did during the five years before the trust was formed.[1]

What is true of petroleum and cotton-seed oil, is also true of sugar and other products. Although the sugar trust has not been organized long enough to give any specific results, the concentration of capital in that industry has been steadily increasing for years, and the prices show a commensurate tendency downwards. In 1880, the price of "Grocers' Standard A White Sugar" was $9.48½ per barrel. It has continued to fall every year since that date, until in 1887 it was only $5.66 per barrel, and other grades of sugar and molasses have fallen in a similar and some in even a greater ratio.[2]

Another of the large organizations against which the hardest things are said, is the railroad syndicate. We hear a great deal about railroad monopolies and their robbery of the public by the high rates made possible by these colossal combinations. An examination of the freight tariffs on the trunk lines shows the same general reduction in prices that we have seen in the case of the Standard Oil and other trusts. The average rates for sending a hundred pounds of freight from New York to Chicago in 1862 and in 1888 were as follows, showing a reduction of 51 per cent:

	1862.	1888.
First class	$1.63	$0.75
Second class	1.32	.65
Third class	1.05	.50
Fourth class	.66	.35

It may be added that the rates for the second and third classes have each been advanced five cents per hundred pounds, through the beneficial influence of the interstate commerce law.

[1] These facts are taken from the prices quoted in the market reports of the *New York Daily Commercial Bulletin* on the first of every month from January, 1878, to December, 1887.

[2] See New York Chamber of Commerce Reports for 1880–1, p. 17; 1882–3, p. 18; 1883–4, p. 18; 1884–5, p. 18; 1885–6, p. 18; 1886–7, p. 18; 1887–8, p. 18.

Another formidable organization that has afforded a theme for considerable moralizing is that of the telegraph system. The Western Union Telegraph company is, perhaps, next to the Standard Oil trust, regarded as the worst monopoly in this country. It is well known that, prior to 1866, our telegraphic service was done through a host of small local companies. To send a message across the country involved its going through the hands of not less than a half a dozen companies. In 1866, these were integrated into one organization under the name of the Western Union Telegraph company.

Since the concentration of capital in the telegraphic service under this organization, the rates for messages from New York to the large centres throughout the country have been reduced 85 per cent, as is shown by the following table:

Rates for sending ten words from New York:—

	1866.	1888.		1866.	1888.
To Chicago . .	$2.20	$0.40	To Minneapolis .	$2.10	$0.60
" St. Louis . .	2.55	.40	" Buffalo . . .	.75	.25
" St. Paul . .	2.25	.50	" Wash'gton, D.C.,	.75	.25
" Cincinnati . .	1.99	.40	" San Francisco .	7.45	1.00
" New Orleans .	3.25	.60	" Oregon . . .	10.20	1.00
" Galveston . .	5.50	.75	" W. Territory . .	12.00	1.00

Moreover, in 1868, when this company sent only 6,404,595 messages, it cost the company, on an average, 63.4 cents per message; and in order to make a profit on the capital invested, the average price charged to the community was $1.047 per message, leaving 41.3 cents profit per message. In 1887, when the company sent 47,394,530 messages, the average cost per message was 23 cents; and the average toll to the community was reduced to 30.4 cents per message, leaving only 7.4 cents profit per message. It will thus be seen that during the twenty years of this "monopoly," the average cost of messages to the community, to all points, has been reduced 74.4 cents per message, or over 70 per cent; and that the profits have been reduced 33 cents per message. In other words, the total cost of the service to the community to-day is 10.9 cents per message

less than the profits alone were before the organization of this company.

It may perhaps be said, that, although these trusts have constantly resulted in reducing prices, should the government run the business, a still greater saving would be accomplished. This idea has been so extensively and favorably received that the demand for government ownership of railroads and telegraphs has become one of the stock resolutions in all industrial reform movements, and the proposition for the government to take possession of the telegraphs is actually before Congress in a bill introduced in the Senate.

There are many reasons why this, in the nature of things, would not be an improvement. Arbitrary monopoly is the natural harbinger of irresponsibility, incompetency and waste, and hence naturally tends to give inferior products at maximum prices. While this is true of all artificial monopoly, it is especially true of government monopoly. The head of a government enterprise, having no interest in the profit, has no necessary incentive for developing improved methods of service. On the contrary, he has a direct interest in keeping the number of employees at the maximum, because, by the disposition of industrial favors, he can command political allegiance, which is the power he chiefly relies upon to retain his position. And this tendency is strongest under democratic institutions, because it is there that the political potency of the laborer is the greatest. Under a system where political influence, rather than economic efficiency, is thus the condition of employment, and where there is little responsibility and no redress for the injury and loss caused by delay and blunders through incapacity, poor, or at best mediocre service must necessarily result.

Nor is this mere speculation, for extensive experiments in government telegraphy have already been tried, and the facts speak for themselves. In all European countries the telegraphic service is in the hands of the state. We therefore have ample opportunities for testing the matter by experience. It should be noted here, that under private enterprise in this country, the company is responsible for losses caused by the failure or delay

in delivery, while no such protection is afforded to the interest of the citizens under any existing system of state telegraphy. As under our postal system, the government is entirely irresponsible, at least to the individual with whom it is doing business. If the citizen is utterly ruined by the inefficiency of the department, he has absolutely no redress; he pays his money and takes all the risk.

The most efficient system of state telegraphy in the world, and the one which gives the lowest rates of toll to the public, is that of Great Britain. England possesses exceptionally favorable conditions for giving cheap telegraph service. In many important respects her advantages are superior to ours. She has a limited, thickly settled, well-cleared country, while we have an extensive, sparsely settled, ill-cleared country to operate in. The extreme distance between terminal stations in England does not exceed 600 miles, with (in 1887) 29,895 miles of line, carrying 173,539 miles of wire and cable, with 6500 offices, and transmitting about 50,000,000 messages per annum. In this country the extreme distance between terminal stations is nearly 5000 miles, with 176,000 miles of line, carrying 630,000 miles of wire and cable, and maintaining 17,000 offices to do the business of 55,000,000 messages.

With such natural advantages over this country, and with labor one-fourth lower, if there is any efficacy in government ownership, Great Britian ought to be able to serve the public vastly cheaper than private enterprise in this country can possibly do. Is such the case? Let the facts answer.

The rate of tolls in England since the reduction two years ago, is 12 cents for twelve words, including date, address and signature. As the date, address and signature will average from ten to fourteen words, it will cost from 23 cents to 25 cents to send a ten-word despatch, which is but a fraction less than the rate in this country. The press despatches are transmitted much more cheaply here than in England. But even this seeming cheapness in the English service is unreal, for the rate of toll does not represent the price the public actually paid for it; because, with the exception of the first two years of government

ownership, the postal telegraph has never paid expenses, as is shown by the following table, the deficiency of course having to be made up out of taxes:

Postal Telegraph Deficiencies in England.[1]

1872 . .	$771,036.82	1880 . .	$143,563.78
1873 . .	854,335.12	1881 . .	4,772.94
1874 . .	997,910.50	1882 . .	540,166.04
1875–76 .	919,842.00	1883 . .	682,672.96
1877 . .	898,843.42	1884 . .	1,661,348.22
1878 . .	907,518.72	1885 . .	1,741,228.50
1879 . .	547,774.18	1886 . .	2,255,232.00

It will be seen from this table that the deficiency in the telegraphic service of Great Britain has averaged nearly a million dollars a year ever since state ownership began, and in 1886, the first full year of the present rate, the deficit was over two and a quarter million dollars, to which must be further added about one and a half million dollars for interest on the bonds given for the plant when the government purchased the telegraph in 1870. Thus, in addition to what is directly paid for the service by the consumer, about 7½ cents per message is paid indirectly in taxes, making a total of over 30 cents per message of ten words; while the cost in this country is only 20 cents for ten words in large cities and 25 cents for ten words for distances of four or five hundred miles, the average for all the messages, both long and short, being only 30.4 cents per message.

From these facts it will be seen that with natural disadvantages in this country which make it necessary to cover eight times as much distance between the terminal stations, to have three times as many miles of line, three and a half times as many miles of wire and cable, and to maintain two and a half times as many offices, and with wages much higher, private enterprise can render about the same amount of telegraphic service as cheaply and with more efficiency and despatch than is done by state ownership in England. And it may be added, that those who do the business here make a living profit, while

[1] Parliamentary Reports on Postal Telegraph, 1886–87.

there they do it for nothing, or run into debt. The proposition to substitute state telegraphy for private enterprise in this country, in the face of such facts, is surely entitled to be designated by some other name than statesmanship.

Those who advocate governmental control of large industries would probably refer us to the management of the post office, which is always cited as the model experiment in collective ownership. We are pointed to the fact that it formerly cost twenty cents to carry a letter across the country while it now costs only two cents, as an evidence of the economic success of the state control. There are few facts which the public accept more implicitly and regard as more conclusive than these; yet there are few more delusive and misleading. It is true that we can now send a letter three thousand miles for two cents, but if we examine the matter a little closer, we shall see that this is not due to anything the government has done. All the government does in the postal service, is to collect, assort, stamp and bag outgoing, and deliver incoming letters; give out and receive money orders; and render an account of the business done. No improved methods have been introduced during the last twenty-five years in that part of the postal system which the government controls. Letters are stamped by hand, and delivered and collected by individual messengers, just as they were fifty years ago. All the economy in the postal service has come from the improved methods of transporting the mail, and this, it should be remembered, is all done by private enterprise. From the moment the letter-bag leaves the door of the post-office it enters the hands of private enterprise. It is the great railroads, steamship companies, *etc.*, and not the government, that have made it possible for letters to go three thousand miles for two cents. Indeed, it is more than probable that had the postal system been under the control of private enterprise, instead of that of the state (managed by mediocre politicians), letters would ere this have been stamped by machinery and collected from street boxes by electricity, and that other improvements would have been introduced which would have

sufficiently economized labor to render one-cent postage possible without running into debt.

There is still another class of objectors to the concentration of capital in the form of trusts. These are sufficiently careful and well informed of the facts to know that trusts have not, as is commonly asserted, yet shown any tendency to increase prices. Their fears, however, all relate to what may happen in the future, when the trusts, having organized in all branches of industry, become masters of the situation. It is not, according to them, until that point of industrial concentration is reached, that the evils of trusts will be upon us, but when that time comes it will be too late to call a halt. The community will then be completely at the mercy of the colossal capitalists, and we may expect not only a rise in the price of the necessaries of life, but all the kindred evils monoply implies.

This statement has a more plausible seeming than those which fly in the face of all known facts, but upon examination it will, I think, be found to be scarcely less erroneous. If the trusts control all the productive processes, it is asked, what is to prevent them from putting prices at whatever height they choose? I answer, that which is to them the most important of all considerations, namely, "*self-interest.*" If it could be shown that their interest would be promoted by raising prices, I freely confess that there would be little hope of the fact being otherwise. It should always be remembered, that capital is one of the most sensitive things in the world; — it has been well said that nothing is so cowardly as a million dollars, except two million dollars. Capital always shrinks at the sight of losses, and it will run almost any risk for probable profits. Knowing this as no others do, the monopolists, so called, see very clearly that if they put their prices so high that the margin of profit is abnormal, capital will at once leave other industries and rush into theirs. Capital is ever waiting for just such opportunities It may be said that if new capital comes into the business they will buy it up. But that takes money, and a million dollars invested in buying up a competitor might, with much more safety, be invested in reducing prices; because a new

competitor may prove too strong to be bought up, in which case the monopolists themselves may be driven from the field or have their profits reduced to the lowest point. They have therefore a direct interest in keeping prices at least sufficiently low not to invite the organization of counter enterprises which may destroy their existing profits. If the gates for the admission of new competitive capital are always open, the economic effect is substantially the same as if the new competitor were already there; the fact that he *may come* any day has essentially the same effect as if he *had come*, because to *keep him out* requires the same kind of influence that would be necessary to *drive him out*. And as the latter always involves greater risks than the former, on the principle of self-interest the former is most likely to be adopted.[1] There is really little to fear, in this line, so long as arbitrary barriers are kept out of the way, because in the absence of legal restrictions the active influence of the potential competitor is ever present.

Fourth: The next charge against trusts is that, through their immense wealth, they are obtaining an increasing control over the government, and are thereby tending to become not only industrial monopolists, but political dictators also, the latter being the natural consequence of the former. This charge, I think, upon investigation, will also prove to be unfounded. Notwithstanding the wholesale complaints that legislation is all in their interest, the statute books of the various states show no evidence of this fact. Instead of laws being enacted to grant special favors to these corporations, the books bristle with enactments directed against them. It is true that they have lobbyists, and perhaps spend large sums of money during the legislative sessions; but any one who will investigate the matter will find that it is almost invariably to defeat legislation directed against them, and not to enact new laws in their favor. They need no legislation in their favor. They are strong enough, by virtue of their concentrated capital and improved

[1] This is clearly shown in the history of the Standard Oil company. During the last ten years this company has had practically no competitor. Still the price of oil has steadily tended downwards.

methods of production, to hold their place in the industrial world.

Instead of growing in political power, they are constantly becoming politically ostracized, as is shown by the increasing unpopularity of the presidents and other prominent officials of trust companies. Fifty years ago it would have been regarded as a favor by the community for a rich manufacturer to accept any position. Just in proportion as this industrial concentration and specialization has developed, the political attitude of the community has changed towards capitalistic magnates, until to-day the president of the Standard Oil company, or of the Western Union Telegraph company, or of a railroad syndicate, whatever his personal qualifications, could hardly be elected as a member of a board of aldermen. Nor is there anything unjust in this attitude. These men have not developed the qualities of statesmanship. They have developed simply the capacity of industrial managers, and as such, in the specialization of social and economic forces, they naturally gravitate to the field of operation where they are experts. Hence, in proportion as they become industrial specialists, they recede as political leaders. This is also shown by the fact that if they want to affect legislation they are compelled to do it indirectly, because to be known is to be defeated.

But those who take this pessimistic view, when asked for facts, failing to find them in modern experience, generally point us to ancient Rome, and bid us take warning of her fate. They, with considerable eloquence and pathos, remind us that when the wealth of Rome began to be concentrated into a few hands, the people were oppressed, political corruption and private immorality ran rampant, and intellectual, political and national decay set in, which culminated with the destruction of her civilization. To say that because the concentration of wealth led to political and national degeneracy in Rome in the fourth century, the concentration of *capital* will produce the same results in the nineteenth century, is illogical to the last degree. This conclusion is based upon the very common assumption that all concentration of wealth tends to impoverish the masses. That

is a fundamental error, which arises from the failure to recognize the distinction between consumable wealth and productive wealth.

It is true that the concentration of consumable wealth in the hands of one class lessens the amount available for the others. But this is not true of the concentration of productive wealth (capital), because, as I have already shown, capital fills no other function than that of a tool; hence no class is the richer for owning capital, except as they obtain the consumable wealth that it produces. Under Rome it was the consumable and not the productive wealth that was concentrated. It is notorious that nothing was held in more contempt in the Roman imperial period than industry. It is said that Augustus pronounced the sentence of death upon Senator Ovinius for "having so degraded himself as to engage in manufacture." Rome was essentially a military and not an industrial state. She lived by plunder rather than production, and her wealth was distributed by authority rather than economic law. Hence the history of Rome, instead of illustrating the necessary consequences of present industrial tendencies, shows, rather, what may naturally be expected from the arbitrary manipulation of industrial affairs.

Since capital is of no use to any one except as it produces enjoyable commodities, and since the capitalist can obtain no enjoyable commodities as the result of concentrated capital except as he can sell its products, it follows that capital can only be advantageous to the *capitalist* when its products are generally and liberally consumed by the community, and, consequently, the concentration of capital is economically possible only in proportion as the consumable wealth it produces is generally distributed. For this reason the arbitrary concentration of consumable wealth in Rome made the concentration of productive wealth impossible, and, conversely, the natural concentration of productive wealth to-day makes the concentration of consumable wealth impossible. It is of the very essence of economic law that consumable wealth is most widely distributed in proportion as productive wealth (capital) is concentrated. Thus by

the same economic law that the social and political degradation of the masses was increased by the concentration of consumable wealth under Rome, their material prosperity and political independence are promoted by the concentration of productive wealth under modern industrial institutions.

Manifestly, therefore, the charge that the concentration of capital in the form of trusts and syndicates, necessarily tends to produce monopoly (in the obnoxious sense), destroy competition, increase prices, oppress labor, or to put the government into the hands of an industrial oligarchy, is without any real foundation in fact, or justification in reason. On the contrary, these institutions, instead of being the evidence of industrial abnormity and economic disease, are the natural consequence of modern industrial differentiation, and in their nature are economically wholesome, and politically and socially harmless.

In taking this view of the economic and social aspects of trusts, I do not assume the moral sponsorship of all that is done in their name and behalf. I am not unmindful of the fact that many evils have grown up with the development of these organizations, which demand the most serious consideration and vigorous treatment. But I insist that this is not an inseparable part of these institutions, and hence that it is not necessary to check their economic development in order to suppress the moral and social evils that have become associated with them. The corruption of the lobby and the coercion of competitors are no more necessary to trusts than venal voters are to democratic institutions, than mercenary decisions are to the jury system, than blatant demagogy is to free speech, or than superficial, sensational and fawning journalism is to a free press. It is a characteristic feature of all social development that the advent of new and more complex phenomena always creates the possibility of new evils. And it is only to the extent that these evils are eliminated without impairing the good, that any real progress is finally assured. To promote this eliminating process is the function of true statesmanship. In order to do this with any appreciable success we must learn to recognize the important, but generally ignored fact that all

social, political and moral institutions finally rest upon and are adjusted to and determined by the character of the great mass of the community. It is a well established fact that business immorality and political chicanery are the most general where the social, intellectual and moral character of the masses is the lowest. Hence we always find the habitual misrepresentation of the quality, quantity and price of merchandise, and the systematic packing of caucuses and bribing or coercion of voters, most prevalent among the poorest and most ignorant classes.

Therefore, if we want to improve the character of Congressmen we must elevate that of their constituents, and for the same reason, in order to elevate and purify the tone of the press we must improve that of the readers. The only way to prevent the capitalists from corrupting legislation in the lobbies is to increase the integrity of the caucus. Those who buy votes may always be expected to sell legislation. As the evils associated with trusts are mainly ethical in their nature, their elimination should not be sought in any arbitrary limitation of trusts as industrial institutions,[1] but it should be sought in the direction of a more perfect administration of the criminal law and in increasing the influences which tend to improve the social condition, and develop the intellectual and moral character of the great mass of the people, who constitute the only power that can make such evils impossible. It must not be inferred, however, that the economic phase of trusts and similar organizations is necessarily outside the pale of state action. But if the community is to secure the best economic results from the use of capital and obtain the maximum production at lowest prices, the state should promote rather than restrict the free movement and safe concentration of capital in productive enterprise. One

[1] The present tendency of legislation is strongly in that direction. Since writing the above I have received the full text of a bill recently introduced into Congress proposing to levy a tax of 40 per cent on the products of trusts. This measure, which is characteristic of all the proposed legislation upon the subject, is essentially uneconomic in character. Instead of tending to eliminate the bad features of trusts without impairing the good, it would produce the opposite effect. If it did not make the development of large enterprises impossible it would destroy their economic advantages by making their products 40 per cent dearer to the public.

of the ways in which the state can render efficient service in this regard, without interfering in any way with the freedom of capital, would be to furnish frequent, reliable statistics as to the cost of production, including that of raw material, wages and transportation, and also the selling price of the product in large industries. With such statistics, scientifically collected and authoritatively presented, whenever abnormal profits existed in any industry, the fact would be generally known; and idle and less remunerative capital would at once move in that direction. By this means the mobility and consequently the competitive influence of capital would be greatly increased, and the full benefits of large enterprises and improved methods of production would be secured to the community by the necessarily minimized prices and profits.

GEORGE GUNTON.